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Vodafone Group Plc

Half-Yearly Results

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I. Preamble

Good morning and welcome. Here is the agenda for the next hour and a half:

- I'm going to run through the highlights and give you an update on our strategy.
- Andy will come next and will give you a detailed financial review.
- We'll then be joined by Vittorio Colao and Paul Donovan in a question and answer session.

II. Key Highlights

- Our first-half results are good and show that we're executing well on each of our five strategic objectives.
- In Europe, revenues have grown in a tough environment. We are driving strong usage growth and data revenues. Our cost reduction programmes are delivering results in an environment of falling prices, protecting our margins and our cashflows.
- EMAPA produced another great set of results, with strong contributions from its markets. Good momentum continues at Verizon Wireless.
- Our performance in the first half has enabled us to improve our guidance, in particular, on revenue by £1 billion and free cash flows by 10%. Our dividend growth of 6% is above our previous guidance and reflects successful execution in the first half and our view of the future.

III. Group Results

Here are the key financial results:

- Revenue was £17 billion, up 9%, or 4.4% on an organic basis.
- EBITDA margin has fallen, in line with our expectations, by 1.4 percentage points.
- Operating profit rose 6.1% on an organic basis. The dilution of M&A and foreign exchange has lowered reported growth to 1.6%.
- EPS rose 7.4%, benefiting from the reduction in shares associated with last year's £9 billion share B return of capital.
- Capex rose by 9%, reflecting increases in EMAPA and reductions in Europe.
- Free cashflow remains strong, albeit a little lower than last year, principally for tax reasons.
- We added 20 million proportionate organic customers, taking the base to 241 million customers.

IV. Performance Drivers

Let me dig into the numbers a little bit deeper. In Europe, we saw modest revenue growth of 2% despite the adverse impact of competitive and regulatory pressures pushing prices down 19% year-on-year. We achieved positive growth through strong performance in voice usage, messaging and data.

In EMAPA, the increasing customer base was the principle factor behind the 16% revenue growth. Verizon Wireless continues to perform well, increasing revenues by 16%. In terms of margins, Europe performed as expected while, in EMAPA, the reduction reflected the pace of customer growth and the inclusion of Turkey, which has a lower margin. In terms of our main product line, strong data and messaging growth has more than compensated for a broadly flat voice revenue.

V. Europe – Key Country Review

1. Germany

Now turning to the results of our principle European businesses, in Germany, last October's price reduction and roaming regulation have had a significant negative effect on both revenue and EBITDA margins. However, usage growth of 29% remains encouraging in the market. In the context of these revenue declines, a 1.3-percentage-point reduction in margin is reasonable.

2. Italy

In Italy, Bersani was the principle cause for the 2.7% reduction in revenue and 2.5-percentage-point fall in margin, offsetting otherwise good underlying trends in the business.

3. Spain

In Spain, the growth story continues, despite a slowdown due to increased competition. Revenue grew by nearly 11% and margins by three percentage points.

4. UK

In the UK, our Winning in the Market strategy is working well, driving revenue growth of 6.7% and an increase in contract customer share. The margin impact is as expected.

VI. EMAPA – Key Country Review

Turning to EMAPA, we have achieved good customer growth of 22-75% in our principle markets. This customer growth, in turn, has delivered strong revenue trends across the region. Egypt is growing at 33%; Vodacom at 20%; Turkey at 28%; Romania at 24%. Our recently acquired business in India continues to achieve high revenue growth and improve its market position – more on India later.

VII. EMAPA – Verizon Wireless

Moving to Verizon Wireless, we continue to see good performance here as the company continues to outperform in what is still a very attractive market. The business remains an industry leader on many metrics: total turnover, number of retail customers, lowest churn, and the highest profitability. Positive momentum remains, with strong revenue and customer growth.

VIII. Our Strategy Addresses the Changing Environment

Now, a few words about the external environment: we discussed the external factors and environment in detail at our Strategy Day in May 2006, and I just want to update you on what's been going on. First, competitive pressures remain. On regulation, we've had to deal with the issues of roaming and Bersani. In addition, customer choice is expanding, as broadband creates the platform for innovation and new entrants come into our space; for example, Apple's iPhone, Nokia's Ovi and Google's Android operating system. The strong growth in emerging markets also continues.

I'm pleased to say that our strategy remains right and relevant in the current environment:

- Our focus on revenue stimulation and cost reduction remains central to the challenges of ongoing regulatory and competitive pressures.

- Our total communications strategy proves to be essential in a market when others are coming in. New entrants will stimulate innovation. Our data connectivity businesses will reap the benefits of this innovation. We will continue to provide Vodafone live!-

branded services in the marketplace and, in some cases, we will partner with others, such as Nokia Ovi.

- Our emerging market strategy has provided an engine for growth for the Group and excellent returns for the cash invested. Our strategy continues to drive our performance.

Now, a little more on each of our five strategic objectives.

IX. Five Strategic Objectives

1. Revenue Stimulation in Europe

On revenue stimulation, we remain focused on driving revenue and usage through a tailored, market-by-market approach of voice and messaging solutions. As a result, we have enjoyed a 24% rise in usage, 13% on a per-customer basis, while our prices have declined 19%. Messaging revenues have expanded 8.6%; volumes rose an impressive 28%. Although overall elasticity remains below one, it is over one on selected, targeted offers. There is still significant scope to drive usage in a market where usage is about 150 minutes per month, well below markets such as the United States and India.

Enterprise is an important focus for us as we develop our European business and we maximise the benefits of our unique wide coverage and large partner market network. Enterprise accounts for 28% of European revenue and is growing at 6%, driven in particular by data services. These customers provide attractive ARPUs and are rapid adopters of our data products. In order to ensure that we remain properly focused in this area, we have recently launched Vodafone Global Enterprise. This division will ensure that we deliver high quality, integrated services to our largest 142 multinational customers. We're growing revenue in this business by 14%.

Cost Reduction Programmes in Europe

We're making good progress on our strategic cost reduction programmes. We remain on track in terms of timing and mostly ahead in terms of savings. I am pleased to announce that we have secured £340 million of savings to date, with further planned benefits to come in the next year, two and three. Additional initiatives under implementation include network-sharing, including in Italy, where we have just announced an extension to our arrangement with TIM, with an expanded scope. We are also working on ERP centralisation and we are also working on European co-network integration. European capex was 8.1% in the first half and we are confident of delivering our 10% number for the full year. Andy will go into these cost reductions in greater detail.

2. Total Communications Strategy

a. Key elements

Our total communications initiatives now represent 12% of revenue and we remain on track to grow this business to 20% of revenue by 2009-10.

- Mobile advertising remains a significant future opportunity. We are well positioned, having commercial agreements in eight markets. Our focus here is on shaping and developing this growth market.

- We continue to drive fixed mobile substitution through fixed location services such as Vodafone Zuhause and Vodafone Office, where we have six million customers and revenue growth of around 33%.

I will now cover broadband and data, which account for the majority of our total comms revenue.

b. Mobile data

First, mobile data: data revenues continue to grow rapidly, at 45% for the Group, and have delivered about £1 billion of revenue in the first half. The number of 3G devices has nearly doubled, to over 21 million, including our Vodafone Mobile Connect data cards and the increasingly popular plug and play USB modems. We now have 0.5 million mobile internet users across several markets since our launch in May and we are working well with our key partners such as Google and eBay. Strong data growth is also supported by the attractive speeds delivered by our 3G broadband networks, which include HSDPA, combined with clear pricing for national and roaming customers. Our 3G network is well positioned to benefit from this trend, with around a 20% average utilisation. We expect data to generate attractive growth rates in the years ahead.

c. DSL

On DSL, the broadband market in Europe is an attractive opportunity, albeit on a case-by-case basis. Average penetration is around 50% of households. Countries like the Netherlands and Switzerland are over 70% penetrated, with Italy and Germany 40% penetrated and Spain 50%. We now have the platform to offer DSL through ULL and resale in 13 markets. Arcor continues to perform well and Vodafone Germany is enjoying strong fixed broadband cross-selling. The acquisition of Tele2 Italy and Spain accelerates our entry into these fast-growing markets and provides good scope for cost and revenue synergies. The acquisition, when completed, takes the total fixed broadband customer base to around three million customers.

3. Deliver Strong Growth in Emerging Markets

Moving on to emerging markets, I have already discussed the strong customer growth we are enjoying on the back of fast-growing economies and relatively low penetration rates. However, delivering profitable growth requires us to focus on cost efficiency and product differentiation, just as we do here in Europe. Our ultra-low-cost handset – the $20 dollar handset – is generating significant sales in India, Egypt, Romania and South Africa, and allows us to address a wider market with affordable and attractive products and services. In Kenya, our M-PESA money transfer service is now being used by a million people, enhancing our churn performance.

Moving on to India, the India business has been successfully integrated into the Group and was re-branded Vodafone during September. Good execution of our plans is driving good performance in line with our plans: revenue growth of 53%, around 1.6 million net adds per month, and good EBITDA margins. We have a number three market share on a nationwide basis, but we are number two in our principle 16 circles. We remain on track to

invest £1 billion in capex this year to aid the network rollout and support growth. We continue to seek ways to deliver further cost efficiencies, including ongoing site-sharing discussions with other players in the market.

4. Actively Managing our Portfolio

In the half year, we've completed our acquisition of Vodafone Essar for £5.5 billion and we've sold a 5% stake in Bharti, realising £700 million. We've also agreed to acquire Tele2 Italy and Spain for £0.5 billion. We continue to reposition ourselves from low-growth, non-controlled positions, towards higher-growth, controlled businesses. Our strategy remains to drive returns for our shareholders from our portfolio, and the areas of developmental interest to us remain Asia, Africa and parts of central and eastern Europe.

5. Returns and Capital Structure

On returns and dividends, the board has decided to grow our interim dividends by 6% to 2.49p. This reflects the good performance we've experienced in the first half and our view of the prospects for the business on a going-forward basis. While the board remains committed to its policy of 60% dividend payout on adjusted EPS, I would restate that we will allow the level of payout to rise above 60% as we absorb the initial dilutive impact of India. Net debt was £23 billion at the end of September and our credit rating remained in line with our policy.

X. Improved Outlook for FY 2007-08

Turning to the outlook, operating conditions are expected to continue to be competitive in Europe, with ongoing pricing and regulatory pressure, notwithstanding continued positive trends in data revenue and voice usage. In EMAPA, we expect increasing market penetration to continue to drive growth. Against this background, we've set out our new guidance. Improved operating performance has encouraged us to increase full-year targets for revenue and operating profit. Capex guidance is unchanged, with efficiency improvements in Europe offset by increased investments in EMAPA, and in India in particular. Free cashflow is also expected to be higher, benefiting from both improved operational performance and lower anticipated tax payments.

XI. Summary

So, in summary, we continue to execute well on our five strategic initiatives. As a result, in Europe, we continue to deliver higher data revenue and voice usage, alongside important cost savings. We continue to enjoy strong growth in EMAPA, in both emerging markets and Verizon Wireless. Overall, I am pleased with the strong first-half performance, which has encouraged the board to improve both our guidance and shareholder returns for the current year. Andy, over to you.

Financial Highlights

Andy Halford

Chief Financial Officer, Vodafone Group

I. Preamble

Thank you very much, Arun, and good morning to everybody. I'm going to provide a little bit more colour to the operational performance, touch upon interest, tax and the overall debt position.

II. Group Income Statement

Let's start with the Group income statement. Two key numbers here that Arun has mentioned already, highlighted in the top left: £17 billion of revenue and £5.2 billion of adjusted operating profit. The revenue figure headline is up by 9% year-on-year. If we take out the effect of Turkey and India, which were not in both periods in full, and adjust for some small foreign exchange differences, then the overall increase organically was 4.4% on the revenue. On the adjusted operating profit, doing the same comparison, the major effect here was actually the removal of the Belgacom and Swisscom profit contributions in the previous year, so that plus the forex has the impact of actually increasing the organic growth rate on the profits by 6.1%.

III. Regional Review

1. Overview

If we look at this by region, I've just added in here a third line in the middle – the EBITDA line. So the first column here is the Group numbers I've just been through, and I'm going to pick up each of these in more detail as we move forward.

- On Europe, the key number is 2: 2% up on revenues organically, and about 2% down on the EBITDA and adjusted operating profit.
- In EMAPA, excluding the US, key numbers there are 16% up on the revenues, 13% up on the EBITDA, and 11% up on the adjusted operating profit.
- In Verizon Wireless, 16% up on the revenues, 17% up on the EBITDA, and a big 26% increase in the adjusted operating profit. Verizon Wireless now represents 22.5% of the Group's adjusting operating profit, compared with 20% a year ago.

2. Europe

a. Good trends despite competitive pressures

So let's just start then with Europe. Headlines: £12.7 billion of revenue, £4.8 billion of EBITDA and £3.3 billion of adjusting operating profit. The drivers of the revenue, I'll go through on the next slides, but just by country, we had reductions in Germany and Italy and we saw good increases, particularly in Spain and in the UK. On the profit side, where we were down about £100 million year-on-year, we were down in Germany, Italy and the UK but up in Spain.

b. Data growth offsetting pressures on voice

Let me just start then with the revenue in Europe. The left-hand side here is the make-up of the £12.7 billion of revenue. Just very quickly going down the key lines there, you can see that the outgoing voice was basically stable year-on-year; the incoming was down about 4%; the roaming was down about 10% – and I'll go into each of these in more detail in a minute; messaging was up 8.5%; and data up, as Arun has mentioned, a very, very strong 41%.

If I step back from the detail, in the period we have taken on the chin the impact of the roaming regulation, the Bersani top-up decree in Italy and the termination rate cuts, which have probably trimmed back the overall revenue growth by £400-500 million in the period, which is the equivalent of about 3.5 percentage points of growth, but through the strong work on data and on messaging and on the outbound voice, we have actually managed to make that up and add another couple of hundred million as well. The growth rate in the second quarter, if you normalise for the accounting adjustments of the previous year, was very, very similar to the rate of growth in the first quarter.

c. Stable outgoing voice driven by strong usage

So I'm just going to go and walk through now, on the following slides, the line items that you can see on the chart there. Firstly, on the outgoing voice, as I said, the numbers are pretty well stable year-on-year. In the yellow, you can see the price change – this is the price paid by each customer – which has been typically in a range of 15-20% reduction each quarter now for the last four quarters. The average for the last two quarters – for the last half year – is a 19% reduction in the average price paid per customer.

In blue, you can see the total volume of minutes that we actually sold, and those have typically been in a corridor of 22-26% over the period. On average, in the last half year, the number there was 24%, so 24% up on volume, 19% down on price – a slight reduction in the rate of growth in volumes in Italy and Spain over the last quarter, but overall still very much in the same range as previously.

d. Incoming voice impacted by termination rate cuts

Moving then on to incoming, as expected, we saw a reduction in the revenues here – about 4% down. Using the same colour coding, we have now actually had four consecutive quarters where the price paid by customers has been going down at or around 12%, and we have, for the third consecutive quarter, had an increase in the volume of minutes, of around 9% – so volumes up 9%; prices down 12%, a fairly consistent pattern there on average across the European businesses.

e. Focus on stimulating voice roaming usage

Moving then on to voice roaming, voice roaming revenues down 7.4% organically – again, very much as we expected. That is a decline year-on-year of about £80 million. Sales of the Vodafone Passport product still going very, very strong – 16 million customers there – and we have obviously applied the new regulated pricing. Within these numbers, there is a £30 million VAT benefit in the UK, so the underlying effect of the roaming is about £110 million reduction, which is benefiting from quite good usage uptake – about 12% increase in volumes. So, overall, we're probably just slightly more optimistic now about the roaming outcome for the year compared with the guidance that we gave back in May.

f. Data revenue driven by business customers

Now on to data and messaging: on the left-hand side, just a reminder – data up 40.8% and messaging up 8.6%. On the right-hand side, you can see the bar charts here. Collectively, those have contributed £300 million more revenue than in the first half of last year. The messaging increase of 8.6% comprised a volume increase of 28% and price reductions of about 15%. Over the last three years in aggregate, the price per message on average has come down by over a third.

The revenue increase is particularly strong in Italy and the UK, both of whom saw increases in messaging revenues of around 20%. The 41% increase in data was very much driven in the business segment, with Vodafone Mobile Connect data cards, the connectivity side of things, 1.7 million Vodafone Mobile Connect data cards now in the market. That is an increase of 72% over the last year, and the revenues from that have over doubled.

On applications like email and BlackBerry®, we have seen 1.9 million handheld devices, which is an increase of 112%, with revenues from those up by 80%, so a very, very strong performance on the data front, enabled significantly by the greater data speeds from 3G and from HSDPA.

g. Customer investment impacting EBITDA margin

Moving then on to the margin change in Europe, the margin for this half year was 38.2%, which was a reduction of 1.3 percentage points compared with a year ago. If I just walk through the component parts of that reduction on this charge, first of all, the interconnect accounted for 0.3 percentage points of that change. Let's put this in context: we had a 24% increase in the volume of minutes going through our networks, but we contained the interconnect cost increase to only 4.5%, primarily because of price changes and also because of keeping as much of the traffic on our networks as possible.

The other direct costs: 0.5 percentage points of that margin reduction. Two factors in here: first of all, the direct access charges in the Arcor business and, secondly, ongoing commissions and content costs in the UK. Customer acquisition and retention costs took 0.8 percentage points off the margin, and I have a slide just coming up on that.

Then, finally, and very helpfully, the operating expense controls actually contributed to a 0.3-percentage-point improvement in the overall margin. Again, I've got a slide coming up on that front.

h. Targeted investment in contract customers

So, let's just talk about the customer acquisition and retention costs: a 7.3% organic increase here overall. The majority of this was on the contract side – about 80% of the increase was on contract – and it was spread fairly evenly between acquisition and retention costs. On the chart on the right-hand side, the green blocks are the total number of new customers added, and you can see some increase there, particularly in the most recent half year. That was particularly in Germany, Italy and the UK. The blue blocks there are the number of upgrades, and again those have increased, particularly in Spain, Italy and Germany. The consequence of that is that we do have improved contract churn rates in each of Italy, Spain and the UK. On the top right here, the single lines are the unit subsidy per customer on both the upgrades and new customers, and you can see, broadly, a fairly stable trend on that front.

i. Tight control over operating expenses

So on to operating expenses: £2.3 billion. We've now got the operating expenses back to the levels of two years ago; i.e. they are, essentially, flat. Let's just put this in context: over that two-year period, the number of customers has increased by 17%; the number of network minutes has increased by 37%; and the number of base stations by 39%. So, against all of those metrics, the operating expenses have basically held flat. In the second half of the year, we may invest a little bit more, particularly on the marketing side, in order to support the increased revenues that are included within the guidance update that we have given today.

j. Delivering mobile capex targets

So on to capex. Good controls here as well: £1 billion of spend in Europe on capital expenditure in the half year, taking our capital intensity down to 8.1%. Basically, that's a consequence of the 3G coverage now having largely been completed and some improvements also on the 2G side through a number of initiatives, some of which Arun referred to earlier on. Typically, we do spend more on capital expenditure in the second half of the year, so we do expect to still be within the 10% figure for the full year, but overall good control on the expenditure side in capital.

k. Adjusted operating profit

Finally on Europe, the adjusting operating profit: £3.3 billion. That is a £94 million decrease year-on-year, with Germany, Italy and the UK being down slightly, and Spain primarily offsetting, but also a good performance in the Netherlands. Also worthwhile noting that the depreciation trend is now starting to flatten as a consequence of the capex controls that have been in place for some period of time.

So that's the end of Europe; now we'll change tack and move on to EMAPA.

3. EMAPA

a. Delivering profitable growth

£4.3 billion of revenue, £1.4 billion of EBITDA and £0.6 billion of adjusting operating profit – this excludes the US, which I'll come on to in a second. So the headline numbers that I referred to earlier: 16% on the top line; 13% on the EBITDA; and 11% on the adjusted operating profit. If we have a look at the revenue first of all, we can see, on the chart on the left-hand side, the composition of the revenues by operating business. The top part is all businesses that have been with us throughout both of the two comparable half years and then, at the bottom, India and Turkey, which were in for part periods in different durations.

In the top part, you can see very, very strong growth continuing in Egypt, very strong growth continuing in Romania and South Africa. Indeed, the blue bars on the right-hand side are showing the organic growth rates in sequential half years, so it's slowing down a little bit, but that is just as penetration rises; overall, still a very strong performance there. What we've done in yellow is to superimpose the Indian and Turkish businesses, which, under our organic definition, are not included in the organic count, and you can see, putting those in on a pro forma basis puts the actual growth rates back up above the 20% level, particularly, obviously, assisted by the 52.5% growth rate in India and the 28% growth rate in Turkey.

b. Adjusted operating profit

In terms of adjusted operating profit, £563 million of adjusting operating profit. That is progress in most of our businesses. The one with the small bracket around it is India, with an £18 million loss, but it must be appreciated that that is arrived at after taking a £170 million intangible amortisation charge, so the underlying performance there is very much in line with what we had expected. The EBITDA margin at 33.2%: Arun has mentioned previously the overall average for the region was down because of the mix of operating businesses. This is down organically just a fraction from the decision to invest a little bit more in customer growth.

c. Verizon Wireless: strong all-round performance

So, on to Verizon Wireless. Key numbers here – these are six-month numbers, obviously: $22 billion of revenue; $8.7 billion of EBITDA; and $6.1 billion of EBIT. Interestingly, down on the bottom left, the net debt figure in the business is now down at $7.6 billion. You can see, in the line above that, just as a point of comparison, that the EBITDA less the capex is now running at a rate of $5.5 billion. Obviously, that is a six-month number; in other words, running at just under $1 billion per month. Now, the net debt figure there - $7.6 billion – is before the closure of the Rural Cellular deal, which will put about $2.7 billion onto that figure later, when it closes, but nevertheless very strong cash generation and a good low level of debt in the US business.

IV. Group Income Statement

1. Net Financing Costs

So, I'm now going to move away from the operational review and just comment on one or two other things in the income statement. First of all, the net financing costs, at just over £0.5 billion. These exclude the put option accounting, just to be more straightforward. This is up 25% year-on-year, primarily because of the increase in the level of debt and the slight increase in interest rates. If we look forward to the second half of the year, just bearing mind the phasing of some of the dividends receivable, the debt and the interest rates, then we would expect that second-half financing costs would be somewhat higher.

2. Tax

On the tax front, the effective tax rate for the half year was 30.1%, and we continue to expect the overall full-year tax rate to be similar to where we were last year, which was about 30.5% overall for the year.

3. Litigation

Now, the CFC case I know is always a topical one. We have had one further development on the CFC case in the period since May, which is a further court hearing. Put simply, there were two issues raised at that: one was the question of whether the principles that had been determined in the Cadbury Schweppes case were the principles that should be applied to our fact pattern, and the answer to that question was yes, so that has at least provided clarity as to what principles should be applied to opine upon the case; the second issue was a slightly more profound one of whether, actually, UK law is fundamentally incompatible with EU law. There was an interesting development there, in that, while we lost that part of it, we only lost it on a split decision, based upon the casting vote of the chairman. So, we have decided on the latter that we are going to appeal, and the appeal is set for the spring of next year. So the bottom line is this is still moving very, very slowly forward. If I had to estimate, I would say that, for a case that is already seven years old, we are probably still another two to three years away from concluding it.

4. Adjusted EPS

Finally, on the bottom here, the adjusted earnings per share, up by 7.4%; do bear in mind, however, that, first half on first half, we had an 8% reduction in the share count as a consequence of the B share issue a year ago, and that has clearly weighed heavily on that calculation. That does not recur in the second half. Broadly, the number of shares in issue in the second half will be similar for the two periods. It is also worth bearing in mind that those EPS numbers are obviously after we have taken into account the contribution from the Indian business, without which the EPS growth numbers would have been about four percentage points higher. So, of an order of magnitude, that has been the impact of India slightly lower than we previously indicated.

5. Free Cashflow: Strong Underlying Cashflow Generation

On the free cashflow, £2.7 billion on the right-hand side was the published number. There was one item in here, which was the payment of £200 million of VAT, which happened in

the current first half, with respect to the purchase of the Turkish business in the previous year, which if you exclude that, then actually – this is working from right to left - the adjusted underlying was £2.9 billion of free cashflow, pretty comparable with the £3 billion of the previous year. I think it is worthy of note that, even though the margins and the operating profit were challenging in Europe, we did, actually, through the tight capital expenditure control, generate more cash out of Europe this first half than we did a year ago. EMAPA also increased its cash contribution, bearing in mind that that is after, in India, spending about £360 million on capital expenditure. Then we had slightly higher ongoing interest and tax costs, which basically took us to the £2.9 billion number, but overall a strong performance on the cashflow.

6. Net Debt

The net debt: we've closed £23.3 billion of net debt, which compares with £20.2 billion a year ago. Just very quickly, the walk through that: £2.7 billion of the free cashflow that I have just referred to; and then the net impact of acquisitions and disposals, which is shown on the right-hand side, £5.5 billion out for India in terms of cash consideration, £1.2 billion of assumed debt. We have included, as we have to do, the fair value of the options there, which are £2.4 billion, so overall the impact of India is £9.1 billion. Then we have the inflow from the Bharti part-disposal to give £8.5 billion. Then, returning to the left-hand charge, the equity dividend payment coming to the £23.3 billion. So, £2.4 billion of the £23.3 billion is the put option accounting, and those numbers are comfortably in our low single-A credit rating.

V. Outlook for Financial Year 2007-08

1. Overview

Now, Arun talked about the outlook statement earlier. I just wanted to make a couple of extra points on this. We have separated out here and in the press release the movements between foreign exchange movements, recent acquisitions and underlying business performance. We have also, actually, for the purists among you, slightly narrowed the ranges, so mathematically you will work out that this will not totally add across, but this gives you the build-up across.

2. Foreign Exchange

So, first of all, the key point on the foreign exchange is, because we do not consolidate any of the revenues of the US business, we actually have the full brunt of the euro currency exchange movements in revenue, which has given us a boost, whereas, in the adjusting operating profit, we have opposite effect of the euro and the dollar movements, which very simply have pretty well offset each other. So actually, even though exchange rates themselves have moved in our latest view, it has not overall impacted the profit line.

3. Tele2 Deals

We have then put in the Tele2 deals, assuming that those close fairly soon.

4. Upgraded Operating Performance

The column highlighted in red is, therefore, the true upgrade to the operating performance. So we have upgraded the revenues by £0.6 billion, the operating profit by £0.2 billion, and the free cashflow by £0.3 billion. The key component there are on the revenues is the stronger performance on the data and on messaging, being slightly more optimistic on the roaming, and good performance in the EMAPA businesses. That flows through to the adjusted operating profit, slightly lower one-off tax settlements, and we come to the £0.3 billion upgrade to the free cashflow, which is about 7% up on the midpoint of the previous guidance range.

VI. Summary

So, in summary, I think the performance was strong during the period and very consistent with our overall strategy. In Europe, the real story was about driving data to overcome some of the pressures on the voice side. In EMAPA, it was about continuing to grow the businesses there and integrate India. The US is continuing to perform strongly and the debt levels are progressively coming down. Overall, the free cashflow generation for the business remained very, very strong during the period. With that, I will finish and hand back to Arun.

Questions and Answers

Arun Sarin

Thank you, Andy, can I invite Paul and Vittorio up? Okay, with that, I'm very happy to take questions. let's start with Christian up here.

Christian Kern, Lehman Brothers

Thanks Arun, it is Christian Kern of Lehman Brothers, I was just interested if you could help us with the revenue growth outlook in terms of the curves that you are anticipating for voice. Is it a stabilising curve, or is it flattening over the next half years. The second one is on the data side, we have seen exponential growth curves on subscriber growth in the mid 1990s, is this an exponential curve you see flattening any time soon, or is the consumer segment coming in? Just to get a feeling for the underlying drivers, how you see them developing over the next two or three years, you mentioned advertising on the mobile side as well on your release, and that would be very helpful to get a feeling for.

Then a pretty similar one on net debts towards the end, Andy maybe you can help us there on the way you see that debt towards the end of the year? Thank you.

Arun Sarin

Christian, a very good opening question, it encompasses everything, pretty much, thank you for that. I will take a shot at it and will ask my colleagues to join. If you say 'what are the real drivers in the business?' The real drivers in the business continue to be; voice usage growth, which we are growing at 24% in the first half; data growth, that's growing at 40-45%; messaging growth, which is growing at 8%. In EMAPA, the underlying focus in each of our markets, the kinds of numbers that you are seeing, are numbers that one can expect to see in the future.

Offsetting that, are two major downward trends, one is competitive pressure, price per minute, we are talking about 19%, which includes both price pressures from competition and price pressures from regulation. Now the question is, the things that are driving our business forward, I think will continue to drive our business forward. I don't expect any major changes there.

Then the question becomes what is pulling back on the business? Competition, it is very hard for me to sit here today and say that the numbers are going to be substantially lower. Our own view is that it will remain competitive here in Europe, plus or minus a few hundred basis points, I am not trying to be that precise, but we expect things to remain competitive.

On regulatory pressure we had double and triple whammies this year. We had roaming, we had termination, we had cuts, we had Bersani. Frankly we do not expect triple whammies in the years ahead. We will expect single whammies, and we expect termination rates to continue to decline, and we've got them planned into our thinking. On

the margin there might be one or two smaller things but we don't expect the kind of regulatory hits that we have taken this year.

When you net it all out, you basically say the positives things are likely to be similar, and the regulatory pressure is likely to lift a little bit. That gives you whatever set of numbers you can dial in. Anyone want to add something to that?

Andy Halford

Maybe I will pick up the second part of your question on the net debt side, just go onto that. Broadly implicit in the guidance is 4.4 – 4.9 of free cash flows. So 4.6 or so on average, we have done 2.7 in the first half, it is implying about 2 billion in the second half. It is essentially a similar run rate, but more capital expenditure in the second half, particularly on India, is really how the profiling on the cash side works.

Arun Sarin

Vittorio, did you want to add something?

Vittorio Colao, Deputy Chief Executive

I can speak about Christian's point on data. We perceive it as a great opportunity, if you take some basic facts, Vodafone today we have 1.5 million active email customers, which is a promising number but still very small. Data cards and PC-based access to data is going up a lot, but still the number is in the sub-2 million thing. In total out of 106 million we have in one way or another more or less 20 million people who are active on data, but not on a regular tariff.

We really feel the potential is there and now that the speed of the networks clearly has improved and the devices are becoming very user friendly. Also consumer data we perceive is going to an item, you have to believe that the whole society will go into more personal communication, email, maps, music, which by the way is our daily experience. That we perceive as a great potential, we have then as operators to price wisely, and to make the services very easy and accessible.

That is a great potential that we have to really exploit and compared to Verizon Wireless we must do a lot of comparison and sharing best practice and experience. Again with experience, people will move to bigger tariffs and packages including mobile communication on a data basis, which we think is great in Europe.

Arun Sarin

Thank you, Terry?

Terry Sinclair, Citi

Thanks, Terry Sinclair from Citi. German contract churns is up, SACs per customer are down. Is there a chance that SACs per customer will rise in the second half? Secondly, I assume the guidance does not include anything for spectrum in India, I know we will talk about this on December 10, but can you help us think about how when we should expect

spectrum payments? Finally can I just ask whether you are able to give any help to us on quantifying the price per unit reduction in CAPEX? You are clearly spending more in terms of stuff, but you are getting a better price for it, what is the efficiency gain there?

Arun Sarin

Andy, if you take the spectrum guidance question, do you want to take the German question and I will maybe ask Steve Pusey, who is our Chief Technology Officer here to actually comment on what is happening to prices on a unit basis.

Vittorio Colao

On Germany, what I can say is that Germany is, and has been a challenging market from a price point of view. At some point last year we have taken the decision to be more competitive from our price point of view and we are now closing the negative gap in revenue growth with our main competitor. We still have much bigger profitability compared to the main competitor, which is for us the cushion that we can re-invest into being more aggressive, which is what we are doing in this space. We lead in the data space, clearly we have been conquering that space earlier than our competitors, both in the connectivity space and in the consumer entertainment space.

We think we are doing a pretty good job at defending our share. We are focusing more on higher value customers, rather than on lower value customers, which is what you would expect. It is probably going to be another couple of quarters to be challenging environment. The good thing about Germany is if you compare Germany with the other European markets, Germany is still the market which has one of the lowest usages in Europe. Again this indicates that every time that we move the price, there is a great potential to basically catch back in terms of our volume. Overall we do not think that the situation is really as negative as you have described it, but there is still some more work to do.

Arun Sarin

Andy?

Andy Halford

Terry, on the spectrum side, there are really two parts to this, one is policy and maybe actually Paul can comment on what is happening out there. This is not specific to India, but just generally because spectrum is ‘lumpy’ and very difficult to predict when price changes do occur. We have typically guided, and I think it is footnoted in the press release, that we guide exclusive or changes in spectrum and licence costs on that front. The heart of your question is you are exactly right, we have continued to guide on the basis of the existing regime, continuing through the balance of this financial year. Paul, do you want to just comment on where that situation is?

Paul Donovan

Yes, I think the kindest description that I can give the spectrum situation in India at the moment is that it is a bit of a mess. There have been a couple of pronouncements from

the department of telecommunications recently. Number one allowing CDMA operators to obtain GSM spectrum, under the same licence as they had before. The second one is the review of spectrum allocation criteria, which is actually done on a per-subscriber basis, which is actually introducing the potential for up to 800% increase in subscribers before they free the next tranch of spectrum.

The majority of GSM operators do not believe that these proposals are either technically acceptable or practical in terms of their implementation. Therefore they have, through the industry association, filed a petition challenging the ministries ruling.

The issue of spectrum fees is therefore a follow-on and is equally unclear. We're not anticipating any incremental fees for spectrum in the near-term, certainly until the fundamentals of allocation become clearer. Indeed yesterday there were some further announcements on 3G which were equally unclear in terms of scope and timing, so this is something that is clearly going to unfold. We hope that by the time we have the India day in December, that we will have greater clarity on these particular issues. There does seem to be a head of steam in India to get them clarified, and give us a certainty in terms of investment outlook, but right now it's a mess.

Arun Sarin

I think the policies will be clarified in the next 30-60 days and I think we are just going to have to walk through the press releases that we keep getting from India, but more clarity in 30-60 days. Steve?

Steve Pusey

Good morning. Generally I will give you an answer in two areas here, one is if you look at what is underpinning the work we are doing in both markets and the pricing in both markets, the technology cost itself is reducing as we exert our volume ability to procure across all markets. The scale of India only assists in that, with reverse synergies that we can bring to bear with the vendors. Secondly, and as importantly is that as the technologies are evolving quite rapidly, they are offering us an efficiency as we deploy in the marketplace, to both service customers and service the growth particularly in data that you are seeing.

There are two measures looking to support the growth of our business in all those areas, both in net pricing – the power that we bring as one large company, and the evolutions of the technologies themselves – offering better coverage and more customers connected.

Arun Sarin

Nick.

Nick Delfas, Morgan Stanley

Thanks very much, Nick Delfas, Morgan Stanley, two questions, the first is on capacity utilisation on page 15 of your presentation. You say 50-60% utilisation in busy areas at busy times. I just want to clarify is that the busiest area or is that multiple areas? I wanted to get your perspective as it sounds like within a year of data growth that could lead to

some congestion, whether you need to buy in more spectrum, or do something to increase capacity in those areas?

Secondly, just to Arun's point on trends, obviously Q2 over Q1. Maybe there was a slight incremental roaming drag in Q2, although I think you changed most of your prices in Q1 to comply with the regulation. Many of the markets, Germany, Italy, Spain, even some of the EMAPA ones, Romania and Egypt showed a slow down in Q2 on Q1. Could you talk about why that was on an underlying basis? Thanks very much.

Arun Sarin

Let me take the first part of the question and maybe Andy and Vittorio can reflect on the second one. First off, on the 50% usage in our busy areas, those are literally cell sights, or a group of cell sights that are in very high-usage areas. The way to solve the capacity problem there is that you can introduce another carrier. It is not that we are spectrum-constrained, but we might have to put a little bit of capital on top of those particular sites to make sure that we are providing good services to our customers.

In general we are at 20-25%, data usage is growing very rapidly and frankly we are going to have to augment our networks in the hotspots, but not broadly across which is what costs a lot of money. Andy, Vittorio?

Andy Halford

Let me just kick off on this, the growth rates in the first quarter and the second quarter, the revenue recognition change we made a year ago, one has to normalise for that. The roaming price changes have happened slightly differently in some markets in terms of their exact changes. Some business happen very early in the year, one or two of them happened late summer so we will see some of that coming through.

To be honest I think the actual underlying change in the growth rates between quarters is very very small, we are really down to point somethings of a percent. From my perspective we are pretty constant on the growth when you strip it back. I do not think that it is a big change there.

Arun Sarin

Robert.

Robert Grindle, Dresdner Kleinwort

Hi, it is Robert Grindle from Dresdner. It is on the capacity utilisation again I am afraid. Is that 20-25% before the upgrade to 7.2 megabits HSDPA? Is it possible to know roughly on average how many carriers you have activated per base station? Is it still broadly one across the footprint? Then in Italy the agreements you have done with TIM, the expansion of the scope of that agreement, is it possible to get a broad idea as to how much extra that might be worth?

Arun Sarin

First off, the capacity utilisation numbers here, they are mostly on HSDPA at 3.6 because 7.2 is just beginning to launch, and we have given you number in the last six months, so it is before the 7.2. Second in most parts of our network we have deployed only one carrier, selectively we will deploy a second carrier when a need for a second carrier arises. On the TIM extension, I am sure Vittorio can add a lot to this, I am very pleased that we are extending this and we are expanding the scope, so we can do much more than what we have done in the first time around.

Vittorio Colao

It is another very positive type of agreement that we have reached. The agreement first of all is very long in time, it is going to be seven years and is going to take a lot of time to fully deploy. We are thinking of sharing thousands and thousands of sites. The savings will come over time because of course we have to decommission existing towers, and basically replace and put the equipment in the new ones. Here you have probably a very good effect also on the rentals, which is much higher than everyone else.

Power, maintenance, everything which makes actually increasing our capacity more difficult from an operational point of view, not from a spectrum point of view, will become much easier. We think this is not only cost savings but is also very future-proof in terms of all these improvements that we have to make. It is a very positive development.

Arun Sarin

Laura?

Laura Janssens, UBS

Thanks, good morning, it is Laura Janssens from UBS. I wondered if you could comment on the strength of the EBITDA within the common functions line in the P&L, should we interpret this as better cost cutting, and is it fair to assume that most of that is attributable to Europe? Secondly, now data is becoming a more significant part of revenue, could you comment on whether there is reason to assume that the margins are very different on the data part of revenue, compared to the rest of the business?

Arun Sarin

Andy, do you want to take that?

Andy Halford

On the common functions, the comparison year on year, if you got into that level of detail so far, there is an increase in profit contribution from there, some if this is because of reorganisation charges we took in the previous period. Some of it is because as we are moving more to shared types of activities, we are evolving the recharge model for the shared service activities. It is the two of those together which have caused that change there. Sorry your second questions are about?

Laura Janssens

The margins on data.

Andy Halford

The margins on data vary quite considerably, from messaging, which is obviously very high, to a number of the products where we have got bought in components and we have got different ranges of profit share. I would say overall the margins are probably a little bit lower than the company average, but not too much different from the company average.

Arun Sarin

The fastest growing part of data is connectivity, and connectivity has a very good margin. Andrew?

Andrew Beale, Arrete

Andrew Beale from Arrete, just a couple of questions, one of advertising the other on convergence. On advertising you have got a very Bullish paragraph in the statement, talking about the prospects for that. Is there any near-term evidence which supports your great optimism there? Secondly, what the model is long-term, how it is mixed between TV, clicks, banner advertising and so on?

On convergence, I think a few of your competitors are abandoning thoughts of selling fixed and mobile together, where as you have obviously bought Tele2 Italy and Spain. Given that you have paid a consolidation multiple for those assets, I was just wondering how you think you're going to make a return on capital out of those acquisitions?

Arun Sarin

Thank you Andrew, first of all on advertising, it is very early days. The fact that a number of other players, such as Google, are interested in coming to our particular industry is because they think of mobile advertising as the next place where digital advertising is going to go. Our own view is that we are very well positioned as operators, with good CRM, with billing, with information to actually help monetise all of this.

We are doing a number of trials in our markets, I think the most advanced trials that we have are here in the UK, and we are doing it with Yahoo! We are trying different models, banner advertising, content, push and I would say it is early days for us to say that we have landed on a particular business model, in terms of saying 'this type of customers like this kind of advertising, and this is the monetisation in terms of CPM.' It is still early. The numbers that we've got are still in the tens of millions of pounds, so it's not a big number in terms of revenue, but we remain hopeful in the medium term that this will grow into a good sized stream of revenue for our business.

On your second question around convergence, first of all I don't think you've heard us talk a lot about triple-play and quadruple-play. We are in the business of satisfying customers' needs. We believe that mobility is a strong business. We believe Broadband is a strong business. We believe the internet is a strong business. And the assets that we've got and that we are collecting are assets that will help us meet either the mobility needs, or the

Broadband needs or the internet needs of our customers. So, we are perfectly satisfied with what we are doing – buying in some cases and doing unbundled local loop (ULL) in other cases, doing resell in other cases – to make sure we can satisfy our customers' needs, on a country by country basis.

Participant

So, just coming back on that point, if you'd paid a consolidation multiple for these assets, do you then need to buy another asset to make the maths work in those markets, or do you think you can make a return on that existing business as it stands, just doing Broadband?

Arun Sarin

Yes, so I think the businesses that we are buying are businesses that we will take and, frankly, grow. Typically, we're buying a 3%, 4%, 5%, 6% market share position and obviously our mobile market share is in the 30-35% and we will grow the Broadband businesses that we have, to a number higher than we have today.

Vittorio Colao

I'm not sure what the consolidation multiple is but basically what we are seeing – and I can take Germany, which is the case where we have, actually, already to date, presence in both segments – we see that we had at least two strengths. One is distribution power. In Germany, we are selling Broadband, which was really given to us by Arcor, so it's an Arcor inbred type of thing. And we see that the power of distribution under the Vodafone brand is getting traction. And secondly it's created the brand because they know in high-value customers, in Small office/Home office (SoHos), in small and medium-sized businesses (SMEs), we have, typically, a position of strength. That percent is what we really want to do. We want to serve those customers, with their needs, and again, if then one day there is a triple/quadruple play – quintuple, whatever it's going to be – in Spain these days Orange is trying again to play this game, fine we will be in a position to respond. But our main goal is serve the high-value customers with their needs and do it out of our major strengths which are distribution and brand.

Participant

Thank you.

Arun Sarin

I'll take Andrew here.

Andrew O'Neill, Alliance Bernstein

Thanks, it's Andrew O'Neill from Bernstein. A couple of questions, if I could. Firstly, it seems looking at the results from industry broadly in Western Europe that in the September quarter there was a certain level of competitive reduction. Do you have any sense for why you think that things got a little bit more benign this quarter competitively? I know you've already said you don't want to predict what'll happen next but what is

Vodafone strategy going forward from here, given some of the reaction of your competitors?

Secondly, thinking through a couple of things, one is looking at the margin result in Western Europe this half-year, it looks like half on half, given the seasonality, probably margins are about flat. Arun, you were describing a picture for revenue where the regulatory drag next year would be diminished. So, are we moving closer to the point where we can see EBITDA growing again in the European division?

Arun Sarin

Okay, so first of all, I would not describe the competitive environment in Europe as benign. I actually think it continues to stay competitive. And frankly, whether Germany or Italy or Spain or the UK or any of our other units, I think we are all experiencing, you know, competitive markets, and frankly, we expect these competitive markets to continue in the next six-12 months.

Now, in terms of your question around EBITDA actually rising, I don’t see a scenario, at least in kind of the near term, where we are going to see EBITDA margins climbing. We think that our prices will continue to decline for the next couple of years and frankly we will have lower margins. We are working very hard on the cost side, to make sure that the margins don’t deteriorate at a fast rate. As you saw, this time around 1.3, 1.4 percentage points. We’ll continue to do that. We’ve got programmes in place at the present time. We’ll have new programmes, constant cost structure reduction, to make sure that we can have good free cash flow and we can have good margin reduction. So, that’s the scenario that I see for Europe here. Vittorio, you want to add to that?

Vittorio Colao

Yes, I mean I just don’t know whether we can define – if you look at price decline quarter over quarter, to -16, -21, -20, -18 – I mean, yes. Occasionally one quarter you can get, because you know in one country somebody has gone on holiday or something like that, you know, eventually the next quarter you can expect. The point, from my point of view is that most of us – most of the operators – are really trying to get elasticity out of this price reduction. This is the game that we are all trying to play.

And I think we are seeing some volume increases – which again, this is not at one, yet – but we are seeing some value being brought back to us in terms of more users and more things. Spain, UK, there’s always somebody who basically does an aggressive move and if it’s not then it’s just a coincidence.

Arun Sarin

John.

John Clarke, Brewin Dolphin Financial

John Clark, Brewin Dolphin Financial, two questions if I may. You’ve talked quite a bit about regulation, what are the prospects of a reasonable degree of regulatory stability, do you think? I mean, my perception is that, certainly in the past 18 months, regulation from the EU has been somewhat on the capricious side, so something that the industry didn’t

really have to deal with before. Can you give us some idea on how whether you see stability in European regulation going forward? Secondly, could you just briefly also come out with one or two areas where you definitely see your service as differentiating from the growing competition?

Arun Sarin

So first, on regulatory stability, it's interesting you ask the question because Commissioner Reding this afternoon is going to be making a presentation about the state of regulation and what's going to happen in the future. It's very hard for me to, kind of, prejudge what she might say. What she is largely expected to say is that there are parts of the market reviews that will be dropped, which is good news to us, which means we will be regulated on a more limited basis – on a going-forward basis. The second thing is that she will probably talk about creating a super-regulator for Europe. And I think that's going to take a couple of years to thrash out because you've got local regulators and national regulators and what happens at a national level, what happens at a European level will be a subject of intense debate. And I think that debate needs to be had and sorted but that'll take a couple of years.

She has said in the past she'll be watching our industry closely in terms of data and SMS prices. And frankly, our data and SMS prices are falling and we continue to make sure customers have the best rates as they travel around Europe. So these are the kinds of things that are likely to come out.

The net of all this what I said at the beginning to Christian's question around do I 'expect slightly less revenue pressure from regulation next year?' The short answer to that is 'yes'.

Now, on your second question about non-differentiated products and services, we try very hard to stay differentiated, whether it's in the provision of our 3G, High-Speed Downlink Packet Access (HSDPA) data services, whether it's the plug-and-go USB modems, whether it's the proprietary handsets that we have. But obviously, there's a vast majority of handsets that are not differentiated. You can always find a price plan with a competitor that looks quite like the price plan that we have, so, our industry is all about constantly trying to find differentiated elements in our strategy and trying to promote those to our customers.

John Clark

But can I confirm, are you known for any single one particular application? I'm not necessarily talking about a killer app here but I'm perhaps talking about a particular service differentiated.

Vittorio Colao

I wish we had a killer app, which unfortunately does not seem to exist. I would say that Vodafone is recognised – you know, from our own market research – basically for two areas. One is the kind of ownership and being always ahead in the roaming space and this goes back to the passport tariffs, seamless working services, the data to the European data tariff and more to come in that space, which is natural because of our footprint.

And the second is the continuous effort to be leaders, which so far we are succeeding with, in the mobile data space, going back to Christian's before. We launched mobile internet, which is, again, an attempt to put occasional data users into regular tariffs. We have half a million of those subscribers today. In the UK, in this space we are launching this very innovative music service, which is Music Box, which is a rental-type of music service. We are introducing the 7.2 Huawei data card. So you know, I would say if it's not a killer application, there's clearly two areas that we try to own and one is mobile data and one being roaming.

And of course, it goes back also to good, very basic performance. So in Germany, we have the best performing network in terms of speed and in terms of data, which is certified by external people. This is just basic good running. In Italy, we have the best customer service in the country. This is just basic good running of the company. The characteristics that I would really focus on are, you know, the roaming and the mobile data space.

Arun Sarin

Very good. HSBC.

Stephen Howard, HSBC

Hiya, it's Stephen Howard here, of HSBC. Two questions, please. Firstly, can we have a little bit more detail, your thoughts about the Open Handset Alliance and Google's plans there? To what extent do you fear you might be disintermediated by that initiative?

And secondly, on the data side of things, would you agree that it's probably easier to get consumers to start using data services more aggressively if they are on contracts? I mean basically it's easier to pitch them the flat-rate plan, you can subsidise a higher end device. And, that being the case, what kind of ratio of contract to pre-pay would you like to see in the European developed markets in, say, three years' time? Thanks.

Arun Sarin

Okay, so first let's talk about the Open Handset Alliance. Let's go back a couple of years when we said that there were 30 operating systems in the mobile world, and frankly, we'd like to see the 30 operating systems converge to a number more like three, four or five. You know, Symbian is an operating system here in the mobile space. Microsoft is a operating system here. We've always talked about somebody in the industry coming up with a Linux operating system – and, of course, the Google system is a Linux-based system. There'll be a couple of others as well.

So, we in general welcome the fact that the total number of operating systems in the mobile industry is reducing from 30 to some number hopeful closer to five. This is important because as people develop applications, they can't develop applications for 30 operating systems; they obviously can develop applications for one, two, three, four, five. So, it is a good thing that's going on with Google and the Open Handset Alliance. I don't see this as a disintermediation as much as, like I said, this is an operating system. We can ride that operating system any time we would like to ride that operating system. And what we'll have to see is what set of developers come around this operating system and what kinds of new products and services will be sold.

I made this remark in my prepared remarks, where I said, 'These innovations are good for our industry because, fundamentally, they will increase the kinds of products and services our customers will buy.' We are going to be the beneficiary at the data connectivity level because we have the Broadband data pipes and everybody is going to be riding our Broadband data pipes. But equally, in end service, whether it's an Ovi service, or a Vodafone Live! Service, or a iPhone service, or whatever services get developed on Google, frankly we're going to have to compete there. And there, a bigger pie is being constructed and we will probably have a smaller share of a bigger pie in the services there, but we'll certainly have very good market share at the data connectivity level.

I'm sorry, there was a second part to your question, I apologise. Yes, the pre-paid/contract piece. I think you have a point but I would phrase slightly differently. In Europe, Vodafone today has two-thirds, let's say, customers pre-paid and this goes from a low in Spain to a very high in Italy. The point is not strictly pre-pay versus content but is flat commitment versus, if you want, pay by the minute type of thing. With a flat commitment and with a flat payment, the worry with using data services goes away and then people do it more. This is why we have introduced this mobile internet tariff which goes from £7.50 here and €9.90 in the rest of Europe. This is why we are introducing email entry tariffs as low as €5 per month for very basic usage. This can also be done across pre-paid; it is a little bit more technically complex but can be done.

So, the issue for us is really more to educate the customers to get this extra commitment and then be able to build additional output on the service they get. So, from the basic email to move them to the full email and then full email with attachment and then whatever you want. It is not strictly just contract. It is more being able to give some type of flat, no worry type of tariff. And we do that across the board in the pre-pay market and non pre-pay market in the same way.

Simon Weeden, Goldman Sachs

Thanks Arun. I have a couple of device questions, one of which follows on. You are obviously buying handsets at $20 each in some of the emerging markets. Word on the street is that the Nokia N95 wholesales at about $750. It sounds like quite a big gap. Did the android concept provide a means to chop a bit of cost out of the cost handset development and per handset costs? Is that a way of bringing higher functionality phones into a lower price point in the market?

The second question is relating to devices again, but the flip side slightly, which is USB modems. You have a competitor in the UK that is selling a multi-package of a gigabyte USB modem for free on a £10 a month tariff plan. Does that sound like the sort of tariff plan that we get the market using up the 80% of your 3G capacity that isn't utilised at the moment? And finally, I wondered if you could give us some more colour on market dynamics in Turkey, where we saw a little bit of a slip in the margin this half? Thanks.

Arun Sarin

Okay. Well maybe I will take the first one, you can take the second one and you can take the third one. So, the development of an android operating system will in its final form reduce the cost of high end phones, both because the IPR fees that are paid are going to

be minimal – I don't think they are going to be zero but they will be minimal – in an android open system. And I will say that there will be more folks who will have access to these open platforms and I think they will reduce the price of high end phones. It is going to be good for the consumer in that regard.

You want to talk about the £10 talk unlimited?

Vittorio Colao

On USB modems, I would say that in general in Europe there is some kind of convergence on the €30 or £25 band, in that range. That seems very consistent with what is happening in the fixed modem space. And we think that growing below or above that in terms of users puts a big challenge on the network, frankly. So, we are not sure that it is very wise pricing. But of course, what we are seeing not only in the UK is that the same operator does a very aggressive offer in Italy as well and we don't think that you can deliver a very good experience in that space. What we are seeing from our customers is that what they would really like is an increased speed in HSPPA. It helps trade off good customer experience with numbers. We think that customers are happy to pay a price which is in line with fixed broadband for getting a good experience. They are getting a lot of peer-to-peer traffic, a lot of bandwidth hungry kids because it takes away the capacity from your business customers. I am not sure it is a very wise long term strategy.

We are actually not seeing the £10 unlimited as the long term right price in the market place. You can do that for short periods of time, you can do it for certain segments of customers, but that is not the long term price. Turkey, Paul?

Paul Donovan

A year ago in Turkey, we had a highly congested network with a limited footprint. We had customer service that candidly was impossible for our customers to get through to. We were living with the Telsim brand, and therefore not investing in it because we knew we were going to re-brand. We had no resilience in our IT infrastructure and we were not really competitive in the channels. A year on, we have increased the network and dramatically improved customer service. We have now re-branded as Vodafone and are investing in our brand at a higher rate. Our share of gross additions has risen dramatically. All of that has had the short-term effect of depressing margins, but we did always say to you that the Turkey business was about a medium-term turnaround that would require significant investment. In terms of where we intended to get to, we are on track. In the remainder of the year, you will see margins in the 20s (%). As you were pleasantly surprised at the margin this time last year and why it had gone so high, it is merely a reflection of the investment we have made.

Justin Funnel, CSFB

I would like to try to understand the difference in the messaging trend between the UK and Germany. The bulk of your data revenues are still SMS. The UK made double digit growth in revenues; Germany was high single digit decline. I wondered whether you could provide some more colour to compare and contrast those two trends. Which do you think is closest to where you see messaging revenue going over the next couple of years? Growth or decline.

Second, you have managed to sustain 40% growth in non-messaging or data revenue for at least the last year on a growing base. I wondered whether you would care to give a feel for how you saw that percentage rate evolving over the next few years. Do you think you can sustain that sort of growth on a growing base going forward? Our own work would suggest that you might be able to, in which case are we all under-forecasting your European business? You have raised your revenue guidance for Europe for the first time in about eight years; why does this not feature into future years as well?

On India, you say you have had a boost from these low pay, low cost handsets. Does that imply we are now running at more than 1.7 million net adds per month in India?

Vittorio Colao

Germany and the UK are probably the two extremes on messaging. There are several things happening. On one hand, the price of messaging is coming down. Messaging can therefore be used more. On the other hand, the more you give bundles, the more you give big buckets of minutes, and there is inevitably some kind of cannibalisation. My guess is that the future is somewhere in between Germany and the UK. We are not 100% happy with the results in Germany, but we understand there is a consequence of introducing those big bundles and giving the customers the choice to make calls which are already included; inevitably, there was a cannibalisation factor of voice versus data.

In the long term, I am not sure who is forecasting what. We are confident that data growth is there; Spain is growing a lot. However, if you look at the percentage of non-messaging data over the total, Spain is not one of the highest, so there is potential to grow. I think everything will depend on how well we integrate nice, easy to use data devices with tariffs that can take the customers into the experience and then upgrade the experience from a basic service into deeper packages. We are confident this will be important, and we want to ride it.

Arun Sarin

Specifically on your question about data forecasts, we are not forecasting any particular number. It is pleasing that it does not matter whether you are in the UK, Germany, Spain, Italy or the Netherlands; we are finding strong data revenues at around 40%. Data revenues in Portugal are 75% and 70% in the United States. We are finding good, strong data; we need to package a number of things together to ensure this trend continues to move. We are confident that we will see good growth, though we are not trying to predict a number.

On India, the short answer is no, we are not reaching the 7 million mark on the back of ultra-low-cost handsets. We are expanding the distribution and marketplace. We are happy with the 1.5, 1.6 we get and will continue to do so.

Thank you all very much for coming. On 10 December 2007 we have an investor day when we will be featuring India and more. I hope to see you then.